

***AUTOMOBILE ASSOCIATION
INSURANCE SERVICES LIMITED
ANNUAL REPORT AND ACCOUNTS
31 DECEMBER 2001***



Registered number: 2414212

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED**REPORT OF THE DIRECTORS****FOR THE YEAR ENDED 31 DECEMBER 2001**

1 The directors present the audited financial statements for the year ended 31 December 2001.

2 **REVIEW OF ACTIVITIES AND FUTURE DEVELOPMENTS**

The profit and loss account for the year is set out on page 7.

The main activity of the company is the provision of personal lines insurance intermediary services.

Personal lines insurance remains an intensely competitive market, and the recent increases in motor premiums have increased the level of churn within the market putting downward pressures on new business and retention rates. In response to this the business has brought new insurers onto the panel and continues to promote internet usage.

In 2002 the business will focus on growing and developing existing products as well as improving competitor position through adding additional insurers to our panel and substantial further e-commerce development.

3 **DIVIDENDS**

The directors do not recommend the payment of a dividend in respect of the year (2000, £nil).

4 **DIRECTORS**

The directors of the company were as follows:

Andrew Briscoe	-	appointed 14 March 2002
Nigel Clark	-	appointed 14 March 2002
Roger Wood	-	appointed 14 March 2002
Kerry Richardson	-	resigned 14 March 2002
Mark Clare	-	resigned 14 March 2002
Douglas Richards	-	resigned 14 March 2002

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2001 -- continued

5 DIRECTORS' INTERESTS

At no time did any director holding office at 31 December 2001 have any interest in the shares of the company, or any other company in the Centrica plc group, except for interests in, and options over, the ordinary shares of the ultimate parent company, Centrica plc, as set out below.

Details of the interests of Mark Clare in the shares and options over shares in the ultimate parent company, Centrica plc, are shown in the 2001 Annual Report and Accounts of Centrica plc.

Other directors with interests in ordinary shares of Centrica plc during the period (which include those of their families), and who were holding office at the year end are as follows:

Interests in ordinary shares

	As at 31 Dec 2001	As at 31 Dec 2000
Douglas Richards	1,446	1,200
Kerry Richardson	1,760	1,760

Interests shown include shares held under the terms of the Centrica plc profit sharing scheme, where applicable.

Sharesave Scheme

	As at 31 Dec 2001	As at 31 Dec 2000
Douglas Richards	37,176	37,176
Kerry Richardson	-	-

Options over shares in Centrica plc granted in April 1997 were at an option price of 46.4 pence per share.

Long Term Incentive Scheme

	As at 31 Dec 2001	Granted in the year	Exercised during year	As at 31 Dec 2000
Douglas Richards	168,005	29,275	-	138,730
Kerry Richardson	200,588	56,355	-	144,233

Notional allocations of shares were made on 1 October 2001 at a base price of 234.37 pence. Figures as at 31 December 2001 shown above include notional allocations of shares subject to performance conditions and allocations of shares that have reached the conclusion of the relevant performance period but will not be transferred until the expiry of the retention period (a further two years).

1. The first part of the report discusses the importance of maintaining accurate records of all transactions and the role of the auditor in ensuring the integrity of the financial statements.

2. The second part of the report describes the various methods used to audit the financial statements, including the use of sampling and the importance of maintaining a clear audit trail.

3. The third part of the report discusses the importance of maintaining accurate records of all transactions and the role of the auditor in ensuring the integrity of the financial statements.

4. The fourth part of the report describes the various methods used to audit the financial statements, including the use of sampling and the importance of maintaining a clear audit trail.

5. The fifth part of the report discusses the importance of maintaining accurate records of all transactions and the role of the auditor in ensuring the integrity of the financial statements.

6. The sixth part of the report describes the various methods used to audit the financial statements, including the use of sampling and the importance of maintaining a clear audit trail.

7. The seventh part of the report discusses the importance of maintaining accurate records of all transactions and the role of the auditor in ensuring the integrity of the financial statements.

8. The eighth part of the report describes the various methods used to audit the financial statements, including the use of sampling and the importance of maintaining a clear audit trail.

9. The ninth part of the report discusses the importance of maintaining accurate records of all transactions and the role of the auditor in ensuring the integrity of the financial statements.

10. The tenth part of the report describes the various methods used to audit the financial statements, including the use of sampling and the importance of maintaining a clear audit trail.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2001 – continued

5 DIRECTORS' INTERESTS - continued

Executive Share Option Scheme

	As at 31 Dec 2001	Granted in the year	Exercised during year	As at 31 Dec 2000
Douglas Richards	49,989	49,989	-	-
Kerry Richardson	96,229	96,229	-	-

Options were granted on 31 May 2001 under the terms of the Executive Share Option Scheme at an option price of 240.05 pence. The options will become exercisable, to the extent that performance conditions are satisfied, three years after the date of the grant and remain exercisable until the tenth anniversary of the grant.

Options were granted under the terms of the ultimate parent company's Savings Related Share Option Scheme and New Executive Share Option Scheme, and allocations made under the terms of the Long Term Incentive Scheme. Details of these schemes can be found in the accounts of Centrica plc.

The closing price of a Centrica plc ordinary share on the last trading day of 2001 (31 December) was 222 pence. The range during the year was 257 pence (high) and 199.75 pence (low).

There were no contracts of significance subsisting during or at the end of the financial period to which the company is a party and in which any director is or was materially interested.

6 EMPLOYMENT POLICIES

The Centrica Group is committed to pursuing an active Equal Opportunities Policy covering recruitment and selection, training and development, appraisal and promotion. The Group recognises the diversity of its employees, its customers and the community at large and seeks to use employees' talents and abilities to the full. This approach extends to the fair treatment of people with disabilities, in relation to their recruitment, training and development. Full consideration is given to the retention of staff who become disabled during employment. The Centrica Group continues to support the Government's New Deal for people with disabilities, the aim of which is to recruit unemployed disabled people and carers into the Group's operations. Centrica's experience is being shared with other UK employers through its membership of the Employers' Forum on Disability and the Employers' Forum on Age.

The Group continues to support Investors in People.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2001 – continued

7 EMPLOYEE COMMUNICATIONS

The Group is committed to effective communications, which it maintains through formal and informal briefings, company magazines, videos, audio tape and electronic media. There are regular formal communications between representatives from the company and trade unions. The Group has procedures for the timely and accurate communication of financial results and other significant business issues to its employees. Centrica operates an annual company-wide employee satisfaction survey.

8 CHARITABLE DONATIONS

During the year, donations to charities amounted to £563 (2000, £10,299). No political donations were made.

9 CREDITOR PAYMENT POLICY

The Centrica Group aims to pay all of its creditors promptly. The company complies with the Centrica Group policy, which is to agree the terms of payment at the commencement of business with that supplier, ensure that suppliers are aware of the terms of the payment, and pay in accordance with contractual and other legal obligations.

10 DIRECTORS' AND OFFICERS' LIABILITY

Directors' and officers' liability insurance has been purchased by the ultimate parent company, Centrica plc.

11 AUDITORS

PricewaterhouseCoopers have expressed their willingness to continue in office as auditors.

BY ORDER OF THE BOARD



Philip Davies

FOR AND ON BEHALF OF
CENTRICA SECRETARIES LIMITED
SECRETARY

25 OCTOBER 2002

Registered Office:
Millstream
Maidenhead Road
Windsor
Berkshire SL4 5GD

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

DIRECTORS' STATEMENT OF RESPONSIBILITY

IN RELATION TO FINANCIAL STATEMENTS

The directors are required by the Companies Act 1985 to prepare financial statements for each year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss for the financial year.

The directors consider that in preparing the financial statements on pages 7 to 18, the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and all applicable accounting standards have been followed. The financial statements have been prepared on a going concern basis.

The directors have responsibility for ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

We have audited the financial statements on pages 7 to 18 which have been prepared under the historical cost convention and in accordance with the accounting policies set out on pages 9 to 11.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibility on page 5.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers

CHARTERED ACCOUNTANTS AND REGISTERED AUDITORS

LONDON

29 OCTOBER 2002

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2001

	Notes	2001 £'000	2000 £'000
TURNOVER	2	122,880	108,433
Operating expenditure, before exceptional items		(99,650)	(88,281)
Exceptional operating expenditure	3	<u>(4,050)</u>	<u>(2,547)</u>
Total operating expenditure		(103,700)	(90,828)
Operating profit		<u>19,180</u>	<u>17,605</u>
Other interest receivable and similar income	4	4,492	1,296
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5	<u>23,672</u>	<u>18,901</u>
TAXATION ON PROFIT ON ORDINARY ACTIVITIES	8	<u>-</u>	<u>(258)</u>
PROFIT FOR THE FINANCIAL YEAR		23,672	18,643
RETAINED PROFIT AT 1 JANUARY		41,023	22,380
RETAINED PROFIT AT 31 DECEMBER		<u>64,695</u>	<u>41,023</u>

All items dealt with in arriving at the results before taxation for both 2001 and 2000 relate to continuing operations.

As the financial statements have been drawn up under the historical cost convention, there is no difference between the profit and loss account, reported above, and its historical cost equivalent.

The company has no recognised gains or losses in 2001 and 2000, other than the results for the financial years reported above and, therefore, no separate statement of total recognised gains or losses is presented.

The notes on pages 9 to 18 form part of these financial statements

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

BALANCE SHEET – 31 DECEMBER 2001

	Notes	2001 £'000	2000 £'000
FIXED ASSETS			
Tangible assets	9	15,316	16,152
Other investments other than loans	10	<u>452</u>	<u>452</u>
		15,768	16,604
CURRENT ASSETS			
Debtors	11	361,392	288,278
Investments	12	56,910	78,910
Cash at bank and in hand		<u>28,315</u>	<u>24,126</u>
		446,617	391,314
CREDITORS: amounts falling due within one year	13	<u>(365,799)</u>	<u>(333,725)</u>
NET CURRENT ASSETS		<u>80,818</u>	<u>57,589</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		96,586	74,193
CREDITORS: amounts falling due after more than one year	14	(6,514)	(6,514)
PROVISIONS FOR LIABILITIES AND CHARGES	15	<u>(6,377)</u>	<u>(7,656)</u>
NET ASSETS		<u>83,695</u>	<u>60,023</u>
CAPITAL AND RESERVES			
Called up share capital	18	19,000	19,000
Profit and loss account		<u>64,695</u>	<u>41,023</u>
EQUITY SHAREHOLDERS' FUNDS	19	<u>83,695</u>	<u>60,023</u>

The financial statements on pages 7 to 18 were approved by the board of directors on 25 October 2002 and were signed on its behalf by:

NIGEL CLARK
DIRECTOR



The notes on pages 9 to 18 form part of these financial statements

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2001

1 ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention and the Companies Act 1985. Both Financial Reporting Standard (FRS) 18, Accounting Policies, and FRS 19, Deferred Tax, were adopted in 2001. In accordance with the transitional arrangements of FRS 17, Retirement Benefits, additional disclosures are contained in the notes to the financial statements.

A summary of accounting policies is set out below.

Turnover

Turnover represents commissions on insurance policies and income from related credit products. It excludes value added tax and insurance premium tax.

Credit is taken for commission receivable on all insurance premiums credited to underwriters in the company's books and for two-thirds of the commission on premiums receivable and processed but not closed to underwriters by the balance sheet date. No credit is taken for commission or premiums invited but not received by the balance sheet date. The company has agreed with some underwriters that additional commission may be receivable dependent upon certain underwriting criteria. The credit for these additional amounts is taken when the value is confirmed by the underwriter.

Income from credit products is recognised over the period of the loan with a front end weighting.

Tangible Fixed Assets

Fixed assets are stated at cost, less accumulated depreciation and any provisions for impairment. Depreciation is calculated so as to write off the cost of fixed assets, other than land, over the expected useful economic lives of the assets concerned. A straight line basis is used, except where additional depreciation is charged in the period when an impairment in value is recognised. The principal annual rates used for this purpose are:

Freehold buildings	2%
Short leasehold properties	over the period of the leases
Equipment	20% - 33.33%
Motor vehicles	16% - 22%

Provision is made in relation to unoccupied properties for future property costs up to the estimated date of final disposal.

Operating leases

Rentals under operating leases are charged to the profit and loss account as incurred. However, in relation to unoccupied properties, where a decision has been made prior to the year end to vacate, provision is made for future property costs up to the estimated date of final disposal.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2001 - continued****1 ACCOUNTING POLICIES - continued****Retirement benefits**

Retirement benefits are accounted for in accordance with SSAP 24, Pension Costs. The cost of providing retirement pensions and related benefits is charged to the profit and loss account over the periods benefiting from the employees' services. The difference between the charge to the profit and loss account and the contributions paid to the pension schemes, is included as an asset or liability in the balance sheet. The regular pension cost, variations from the regular pension cost and interest are all charged within employee costs, and the straight-line method is applied for amortising surpluses and interest.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits in the foreseeable future from which the reversal of the underlying timing differences can be deducted.

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2001 - continued

1 ACCOUNTING POLICIES - continued

Insurance intermediary assets and liabilities

The company acts as an agent in the insurance of clients' risks and, generally, is not liable as a principal for premiums due to underwriters nor for claims payable to clients. Notwithstanding the company's legal relationship with clients and underwriters and since, in practice, premiums and claims monies are usually accounted for by insurance intermediaries, it has followed generally accepted accounting practice by showing cash, debtors and creditors relating to insurance business as assets and liabilities of the company itself.

Investments

Investments are stated at cost. Credit is taken for all interest due but not received before the year end.

Advertising, promotion and mailing campaign costs

Advertising, promotion and mailing campaign costs are written off as incurred.

Cash flow statement

The company is a wholly owned subsidiary of Centrica plc, whose consolidated financial statements are publicly available. The company is, therefore, exempt from the requirement to prepare a cash flow statement under FRS 1 (Revised).

2 TURNOVER

All of the turnover arises from one class of business within the United Kingdom.

3 EXCEPTIONAL OPERATING EXPENDITURE

The exceptional operating expenditure in 2001 primarily relates to integration activity following the acquisition of the AA Group in 1999 by Centrica plc., net of a credit of £755,000 relating to a release of a provision for costs associated with the company's property in Cardiff. The exceptional operating expenditure in 2000 primarily relates to the integration activity referred to above.

4 OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	2001	2000
	£'000	£'000
Bank interest receivable	<u>4,492</u>	<u>1,296</u>

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2001 – continued

5 PROFIT BEFORE TAXATION

The profit before taxation is stated after charging:

	2001	2000
	£'000	£'000
Depreciation of tangible fixed assets	1,744	1,394
Loss on disposal of fixed assets	3	98
Fees payable to the auditors:		
Audit	65	90
Other	6	3
Property operating lease rentals	<u>1,309</u>	<u>2,368</u>

6 DIRECTORS' EMOLUMENTS

	2001	2000
	£'000	£'000
Aggregate emoluments	<u>331</u>	<u>390</u>

All of the directors were directors of a number of companies within the Centrica group and the emoluments shown relate only to those directors whose remuneration was wholly in respect of their services to the company.

Retirement benefits are accruing to all of the directors under defined benefit schemes.

The emoluments of the highest paid director were £330,754 (2000, £389,692). The accrued annual pension of the highest paid director was £100,884 (2000, £89,035).

7 EMPLOYEES

The average number of persons employed by the company, including executive directors, during the year was 1,954 (2000, 1,816).

Staff costs, including remuneration to executive directors, during the year amounted to:

	2001	2000
	£'000	£'000
Wages and salaries	29,054	25,776
Social security costs	1,421	1,435
Other pension costs	(660)	2,038
	<u>29,815</u>	<u>29,249</u>

Other pension costs include an amortisation of the surplus of the Centrica Management Pension Scheme and AA Staff Pension Scheme. Further details of the valuation of these schemes are contained in the financial statements of Centrica plc.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2001 – continued

8 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

The tax charge comprises:	2001	2000
	£'000	£'000
Corporation tax at 30% (2000, 30%)		
Current year	-	-
Prior year	-	258
Deferred tax		
Current year	-	-
Total tax on profit on ordinary activities	<u>-</u>	<u>258</u>

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2001	2000
	£'000	£'000
Profit on ordinary activities before tax	<u>23,672</u>	<u>18,901</u>
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2000, 30%)	7,102	5,670
Effects of:		
Expenses not deductible for tax purposes	18	78
Depreciation in excess of capital allowances	118	529
Other timing differences	(895)	(637)
Group relief	(6,343)	(5,640)
Adjustments to tax charge in respect of previous periods	-	258
Current tax charge for the year	<u>-</u>	<u>258</u>

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2001 – continued

9 TANGIBLE FIXED ASSETS

	Land and buildings		Equipment and motor vehicles	Total £'000
	Freehold £'000	Short leasehold £'000	£'000	
Cost				
At 1 January 2001	13,962	5,571	9,070	28,603
Additions	-	27	908	935
Reclassifications	-	(140)	140	-
Intra-group transfers	-	-	3	3
Disposals	-	(254)	(64)	(318)
At 31 December 2001	<u>13,962</u>	<u>5,204</u>	<u>10,057</u>	<u>29,223</u>
Depreciation				
At 1 January 2001	2,311	4,683	5,457	12,451
Charge for the year	266	164	1,314	1,744
Intra-group transfers	-	-	3	3
Disposals	-	(254)	(37)	(291)
At 31 December 2001	<u>2,577</u>	<u>4,593</u>	<u>6,737</u>	<u>13,907</u>
Net book value				
At 31 December 2001	<u>11,385</u>	<u>611</u>	<u>3,320</u>	<u>15,316</u>
At 31 December 2000	<u>11,651</u>	<u>888</u>	<u>3,613</u>	<u>16,152</u>

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2001 – continued

10 OTHER INVESTMENTS OTHER THAN LOANS

	2001	2000
	£'000	£'000
Cash deposits	<u>452</u>	<u>452</u>

11 DEBTORS

Amounts falling due within one year

	2001	2000
	£'000	£'000
Trade debtors	143,538	101,361
Amounts owed by group undertakings	215,236	184,051
Other debtors	1,615	1,877
Prepayments and accrued income	1,003	989
	<u>361,392</u>	<u>288,278</u>

12 INVESTMENTS

	2001	2000
	£'000	£'000
Short-term deposits	<u>56,910</u>	<u>78,910</u>

13 CREDITORS

Amounts falling due within one year

	2001	2000
	£'000	£'000
Bank loans and overdrafts	3,319	221,304
Insurance creditors	76,939	51,759
Amounts owed to group undertakings	267,698	47,585
Taxation and social security	4,923	1,971
Other creditors	4,322	3,028
Accruals and deferred income	8,598	8,078
	<u>365,799</u>	<u>333,725</u>

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2001 – continued

14 CREDITORS

Amounts falling due after more than one year

	2001	2000
	£'000	£'000
Amounts owed to group undertakings	<u>6,514</u>	<u>6,514</u>

15 PROVISIONS FOR LIABILITIES AND CHARGES

	Property provisions	Other	Total
	£'000	£'000	£'000
At 1 January 2001	6,577	1,079	7,656
Utilised in the year	(249)	(275)	(524)
Released in the year	-	(755)	(755)
At 31 December 2001	<u>6,328</u>	<u>49</u>	<u>6,377</u>

The property provisions represent costs relating to properties surplus to the company's requirements following the closure of the network of high street outlets. The majority of these sums are expected to be spent during 2002 and 2003.

The other provision is for costs associated with the company's property in Cardiff and is expected to be fully utilised during 2002.

16 PENSIONS AND SIMILAR OBLIGATIONS

Substantially all of the company's employees are members of either the Centrica Management Pension Scheme (formerly the AA Management Pension Scheme) or the AA Staff Pension Scheme.

These defined benefit schemes are funded to cover future pension liabilities in respect of service up to the balance sheet date and their assets are held in separate trustee administered funds. However, it is not possible on a reasonable and consistent basis to identify the company's share of the underlying assets and liabilities within these schemes and, therefore, as allowed within FRS 17, these schemes have been treated as defined contribution schemes for the purposes of making the transitional disclosures in accordance with FRS 17. The provisions for pensions are held centrally by The Automobile Association Limited and the contributions to the schemes on behalf of the company were paid by The Automobile Association Limited. The latest actuarial valuations of the schemes, prepared for the purposes of making the transitional disclosures in accordance with FRS 17 in the consolidated financial statements of Centrica plc, show a total deficit of £29 million. Further details of these valuations can be found in the annual report of Centrica plc.

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2001 – continued

16 PENSIONS AND SIMILAR OBLIGATIONS – continued

The liabilities under the pension schemes will be paid out over an extended period. The company is contributing to the pension funds on the basis of actuarial advice as to the amounts required to meet these liabilities in full. This actuarial advice is based on triennial funding valuations, the last of which was at 31 March 2001. Since then the company has continued to take actuarial advice and has maintained its current contribution levels.

The company has a commitment to provide post-retirement private medical insurance cover for certain current and past employees. Details relating to the latest actuarial valuations of these arrangements are also contained in the financial statements of Centrica plc. Provisions for these obligations are held centrally by The Automobile Association Limited.

17 DEFERRED TAXATION

Deferred tax assets comprise:

	Amounts provided		Amounts unrecognised	
	2001	2000	2001	2000
		(as restated)		(as restated)
	£'000	£'000	£'000	£'000
Timing differences on:				
Accelerated capital allowances	3,043	2,799	-	-
Pension provision	(2,326)	(990)	-	(1,846)
Other short term timing differences	(717)	(1,809)	(1,196)	-
Capital gains rolled over	-	-	2	2
Deferred corporation tax asset	-	-	(1,194)	(1,844)

The comparative figures have been restated as a result of the implementation of FRS 19, Deferred tax. There was no impact on the profit and loss account and balance sheet.

As required by FRS 19, deferred tax assets are only recognised when there is persuasive and reliable evidence that the assets can be realised. Detailed operating plans covering two years from the balance sheet date are used for deferred tax asset recognition purposes. Potential deferred tax asset utilisation falling outside that planning horizon is not currently recognised on the balance sheet. As encouraged by FRS 19, deferred tax asset recognition will be regularly reassessed.

18 CALLED UP SHARE CAPITAL

	2001	2000
	£'000	£'000
Ordinary shares of £1 each		
Authorised	<u>20,000</u>	<u>20,000</u>
Issued, called up and fully paid	<u>19,000</u>	<u>19,000</u>

AUTOMOBILE ASSOCIATION INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2001 – continued

19 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2001	2000
	£'000	£'000
Profit for the financial year	23,672	18,643
Shareholders' funds at 1 January	60,023	41,380
Shareholders' funds at 31 December	<u>83,695</u>	<u>60,023</u>

20 COMMITMENTS

Guarantees

The company is part of a group cross guarantee arrangement whereby it has guaranteed the overdrafts of certain other group undertakings and other group undertakings have guaranteed the company's overdraft. At 31 December 2001, the company's exposure under this guarantee was £15,455,181 (2000, £nil).

Operating leases

The company is committed to make payments next year, analysed by year of expiry, as follows:

	Land and buildings	
	2001	2000
	£'000	£'000
Next year	-	25
Second to fifth year from balance sheet date	141	232
Thereafter	<u>1,577</u>	<u>1,533</u>
	<u>1,718</u>	<u>1,810</u>

21 RELATED PARTY TRANSACTIONS

As a wholly owned subsidiary, the company is exempt from the requirement to disclose related party transactions with other group undertakings under FRS 8 which cancel on consolidation. There are no other related party transactions that require disclosure.

22 ULTIMATE OWNERSHIP

The company is a wholly owned subsidiary of Automobile Association Insurance Services Holdings Limited, a company registered in England and Wales.

The ultimate parent undertaking is Centrica plc, whose principal place of business is situated at Millstream, Maidenhead Road, Windsor, Berkshire SL4 5GD. Copies of the Annual Report and Accounts of Centrica are available from the Company Secretary at this address. Centrica plc is the smallest and largest group to consolidate these financial statements.